Message Text

CONFIDENTIAL

PAGE 01 BONN 01017 01 OF 06 211604Z

42
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 DRC-01 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

OIC-04 IO-14 SCI-06 FEA-02 INT-08 COME-00 OMB-01

TRSE-00 NEA-11 AID-20 FRB-02 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 /207 W
--------------------- 036638
O R 211549Z JAN 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 9834
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY THE HAGUE
AMEMBASSY COPENHAGEN
AMEMBASSY BRUSSELS
AMEMBASSY LUXEMBOURG
AMEMBASSY DUBLIN
AMEMBASSY ROME
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 06 BONN 01017

STATE ALSO FOR T/IEP

E.O. 11652: GDS
TAGS: ENRG, GW
SUBJECT: ENERGY: PREPARATIONS FOR INTERNATIONAL
ENERGY CONFERENCE

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 01017 01 OF 06 211604Z

REF: STATE O1241O

1. SUMMARY. ALTHOUGH FRG REMAINS STRONGLY CONVINCED OF THE NEED FOR INTERNATIONAL COOPERATION IN DEALING WITH ENERGY CRISIS IT VIEWS WITH SOME APPREHENSION THE PROSPECT OF CONSUMER-PRODUCER COUNTRY CONFRONTATION. THE PRINCIPAL GERMAN OBJECTIVE IN DEALING WITH THE ENERGY CRISIS IS TO ACHIEVE A STABILIZATION OF THE SUPPLY AND PRICE STRUCTURE OF PETROLEUM, INCLUDING A ROLLBACK IN CURRENT OIL PRICES. FOREIGN MINISTER SCHEEL'S BEHAVIOR AT THE FORTHCOMING CONFERENCE WILL REFLECT HIS DUAL RESPONSIBILITY AS SPOKESMAN FOR BOTH THE FRG AND THE EC. THE PRINCIPAL GERMAN SENSITIVITIES IN THE ENERGY AREA ARE THE SPREAD OF BILATERAL CONTACTS WITH PRODUCERS BY THE UK, FRANCE AND JAPAN AND THE ROLE OF THE MAJOR OIL COMPANIES IN THE PRICE SIDE OF THE OIL CRISIS. ALTHOUGH OIL SHORTAGES WERE AT FIRST EXPECTED TO HAVE A FAIRLY SEVERE IMPACT ON ECONOMIC GROWTH THE PRIMARY CONCERN NOW, ESPECIALLY IN VIEW OF OIL PRICE INCREASES, IS WITH THE INFLATIONARY IMPACT OF THE CRISIS. BALANCE OF PAYMENTS PRESSURES ARE NOT EXPECTED TO BE AS SEVERE AS FOR OTHER EC COUNTRIES OR JAPAN. THE IMPACT ON GERMANY'S POLITICAL POSTURE WILL BE AN INTENSIFICATION OF ITS RELUCTANCE TO PLAY THE "PAYMASTER" ROLE IN ITS RELATIONS WITHIN THE EC AND WITH THE EAST. THE FRG IS CONTEMPLATING INCREASED COOPERATION WITH BOTH CONSUMER AND PRODUCER NATIONS INCLUDING BILATERAL ARRANGEMENTS WITH THE LATTER. END SUMMARY.

A. SUMMARY OF HOST COUNTRY'S VIEWS AND OBJECTIVES

2. DURING QUESTION TIME AT THE JANUARY 16 SESSION OF THE EUROPEAN PARLIAMENT, FRG FOREIGN MINISTER SCHEEL WAS QUOTED AS SAYING QUOTE THIS CONFERENCE WILL ALLOW US TO SHAPE A REASONABLE COOPERATION BETWEEN SUPPLIERS AND CUSTOMERS. WE WILL TRY AND FIND A PATH WHICH WILL LEAD TO TALKS WITH PRODUCERS. QUOTE. AS THIS STATEMENT MAKES CLEAR, THE FRG BELIEVES THAT THE MAIN FOCUS OF THE ENERGY CONFERENCE

SHOULD BE ON CONSUMER COUNTRY RELATIONS WITH PRODUCER COUNTRIES. INDEED THERE IS SOME CONCERN WITHIN THE FRG BECAUSE THE PRESIDENT'S LETTER OF INVITATION SPEAKS OF A TASK FORCE TO BE DRAWN SOLELY FROM CONSUMER COUNTRIES WITHOUT PRODUCER COUNTRY PARTICI- PATION IN CONTRAST TO THE SECRETARY'S PROPOSAL FOR AN ENERGY ACTION GROUP MADE UP OF BOTH CONSUMERS AND PRODUCERS. WHILE IT REMAINS STRONGLY CONVINCED

OF THE NECESSITY FOR MULTILATERAL COOPERATION IN
DEALING WITH THE ENERGY CRISIS, AND GOVERNMENT
SPOKESMEN HAVE CLEARLY ARTICULATED THAT POSITION,
THE FRG VIEWS WITH SOME APPREHENSION THE PROSPECT
OF CONSUMER-PRODUCER COUNTRY CONFRONTATION AND
APPROACHES, THEREFORE,THE FEBRUARY 11 CONFERENCE
WITH A SENSE OF TREPIDATION.

3. THE FRG'S PRINCIPAL OBJECTIVE IN DEALING WITH
THE ENERGY CRISIS IS TO ACHIEVE A STABILIZATION OF
THE SUPPLY AND PRICE STRUCTURE OF PETROLEUM, INCLUDING
A ROLLBACK IN CURRENT OIL PRICES. ANOTHER BASIC
FRG OBJECTIVE IS TO PREVENT THE COLLAPSE OF THE
WORLD ECONOMY AS A RESULT OF A SCRAMBLE FOR EXPORT
MARKETS BY COUNTRIES SEEKING FOREIGN EXCHANGE IN

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01017 02 OF 06 211618Z

42
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 DRC-01 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

OIC-04 IO-14 SCI-06 FEA-02 INT-08 COME-00 OMB-01

TRSE-00 NEA-11 AID-20 FRB-02 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 /207 W
--------------------- 036784
O R 211549Z JAN 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 9835
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY THE HAGUE
AMEMBASSY COPENHAGEN
AMEMBASSY BRUSSELS
AMEMBASSY LUXEMBOURG

AMEMBASSY DUBLIN
AMEMBASSY ROME
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 02 OF 06 BONN 01017

ORDER TO PAY FOR HIGHER PRICED OIL. THE FRG VIEWS THE FEBRUARY 11 CONFERENCE AS AN OPPORTUNITY TO MAKE PROGRESS IN ATTAINING THESE OBJECTIVES.

4. FURTHER, THE FRG IS CONVINCED THAT ITS ECONOMY WILL HAVE TO RELY INCREASINGLY ON HIGHER COST ALTERNATIVE SOURCES OF ENERGY. IT RECOGNIZES

THAT INVESTMENTS IN THESE SOURCES WILL ALWAYS BE THREATENED, HOWEVER, BY THE POSSIBILITY OF LARGE INFLOWS OF OIL THE PRICE OF WHICH IS DETERMINED POLITICALLY NOT ECONOMICALLY. IT WILL WISH TO DISCUSS, THEREFORE, MEASURES COUNTRIES MIGHT TAKE TO PROTECT THIS INVESTMENT IN HIGH COST ENERGY ALTERNATIVES. ANOTHER FRG OBJECTIVE IS TO REACH AGREEMENT ON WHAT INSTRUMENTS MIGHT BE USED TO FURTHER BROAD-BASED COOPERATION WITH PRODUCER COUNTRIES. THE FRG WILL ALSO BE INTERESTED IN EXPLORING THE POSSIBILITIES FOR APPROPRIATE USES OF THE MASSIVE FUNDS THE PRODUCER COUNTRIES WILL HAVE AT THEIR DISPOSAL.

5. THE FORCEFULNESS WITH WHICH THE FRG PRESENTS ITS VIEWS AT THE CONFERENCE WILL BE INFLUENCED BY ITS ROLE AS CHAIRMAN OF THE EC COUNCIL DURING THIS PERIOD. SEVERAL HIGH-RANKING GERMAN OFFICIALS HAVE TOLD US THAT THE FRG INTENDS TO PUSH HARD, BEFORE AND DURING THE CONFERENCE, FOR A COMMON EC ENERGY POLICY WHICH INCLUDES COOPERATION WITH OTHER CONSUMING COUNTRIES. THEY HAVE ALSO SAID THAT GERMANY WILL NOT ALLOW ITS POLICIES IN THIS AREA TO BE FRUSTRATED BY THE INABILITY OF THE EC TO REACH A COMMON POSITION. NEVERTHELESS, FOREIGN MINISTER SCHEEL WILL BE REPRESENTING BOTH THE EC AND THE FRG AT THE CONFERENCE AND HIS BEHAVIOR WILL REFLECT THIS DUAL RESPONSIBILITY.

6. WE HAVE BEEN TOLD THAT THE FRENCH ARE INSISTING THAT THE EC SPEAK WITH ONE VOICE AT THE CONFERENCE AND THAT THAT VOICE SAY ONLY WHAT HAS BEEN PREVIOUSLY

AGREED UPON WITHIN THE EC. THE FRG WILL ATTEMPT TO ENSURE THAT THE EC VOICE WILL BE A POSITIVE AND CONSTRUCTIVE ONE. THE RESULTS OF ITS EFFORTS AND THE IMPLICATIONS FOR SCHEEL'S POSITION IN WASHINGTON WILL BECOME CLEARER (BOTH TO THE FRG AND TO US) AS THE CONSULTATION PROCESS WITHIN THE EC PROCEEDS.

B. HOST COUNTRY SENSITIVITIES

7. THE FRG IS BECOMING INCREASINGLY SENSITIVE TO

BILATERAL DEALS BEING NEGOTIATED BETWEEN FRANCE, THE UK AND JAPAN AND THE OIL PRODUCING COUNTRIES. ON THE DOMESTIC POLITICAL LEVEL, THE GOVERNMENT FEELS THE NEED TO SHOW THE PUBLIC THAT IT IS PROTECTING ITS INTERESTS IN THE FACE OF THESE HIGHLY PUBLICIZED DEALS BY ITS EC PARTNERS. ON THE MORE BASIC ECONOMIC LEVEL, THE FRG WILL CONTINUE TO REMAIN HEAVILY DEPENDENT ON PETROLEUM FROM OPEC COUNTRIES DURING AT LEAST THE SHORT ANO MEDIUM TERM AND IS BEGINNING TO SEEK ITS OWN BILATERAL ARRANGEMENTS WITH THE PRODUCING COUNTRIES IN ORDER TO KEEP PACE WITH ITS COMPETITORS AND TO SECURE PETROLEUM SUPPLIES FOR THE GERMAN MARKET. THE ONLY WAY FOR THE US TO EFFECTIVELY DEAL WITH THIS SENSITIVITY IS TO PROVIDE A REALISTIC ALTERNATIVE TO BILATERALISM. A COMMON AGREEMENT BETWEEN PRODUCER AND CONSUMER COUNTRIES MIGHT BE ONE SUCH ALTERNATIVE. ANOTHER POSSIBLE ALTERNATIVE MIGHT BE A SHARING ARRANGEMENT INVOLVING THE FLOW OF OIL, COAL OR OTHER ENERGY SOURCE MATERIALS FROM THE US TO THE FRG. OTHER POSSIBILITIES INCLUDE INVESTMENT IN US PETROLEUM PRODUCTION AND MULTILATERAL INVESTMENT IN OPEC SOURCES.

8. A SECOND SENSITIVITY CONCERNS THE ROLE OF THE MAJOR OIL COMPANIES IN THE PRICE SIDE OF THE OIL CRISIS. GERMAN OFFICIALS HAVE TOLD US PRIVATELY THAT THEY THINK THE MAJORS DID AN EXCELLENT JOB OF DISTRIBUTING SUPPLIES DURING THE SUPPLY CRISIS. THEY HAVE ALSO SAID THAT THE MAJORS PLAY A CRUCIAL ROLE ON THE INVESTMENT SIDE. THERE HAS BEEN CONSIDERABLE PUBLIC SPECULATION BY THE FRG HOWEVER THAT THE MAJORS HAVE NOT HAD TOTALLY CLEAN HANDS IN THE RECENT SURGE OF PRODUCT PRICES WITHIN GERMANY. THE MAJORS ACCOUNT FOR OVER 7O PERCENT OF PRODUCT SALES IN THE GERMAN MARKET. THEY ARE THUS THE MOST VISIBLE AND VULNERABLE TARGET FOR PUBLIC OPPINION, WHICH MAY SPILL OVER

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01017 03 OF 06 211617Z

44
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 SSO-00 NSCE-00 USIE-00

INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20 OIC-04

IO-14 SCI-06 FEA-02 INT-08 COME-00 OMB-01 TRSE-00

NEA-11 AID-20 FRB-02 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 DRC-01 /207 W
--------------------- 036771
O R 211549Z JAN 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 9836
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY THE HAGUE
AMEMBASSY COPENHAGEN
AMEMBASSY BRUSSELS
AMEMBASSY LUXEMBOURG
AMEMBASSY DUBLIN
AMEMBASSY ROME
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 03 OF 06 BONN 01017

INTO OFFICIAL ATTITUDES. ANY INFORMATION WE COULD PROVIDE THE FRG ABOUT THE ROLE OF THE MAJORS IN THE RECENT PRICE HIKES AS WELL AS ABOUT OUR OWN THINKING AS TO THE PROPER FUTURE ROLE OF THE MAJORS WOULD BE HELPFUL.

C. BACKGROUND INFORMATION

CONFIDENTIAL

1. IMPACT OF ENERGY CRISIS

9. THE CURRENT GOVERNMENT FORECAST IS THAT REAL GNP WILL GROW BY BETWEEN ZERO AND 2 PER CENT IN 1974 WITH THE RATE NEARER 2 THAN ZERO. THIS ESTIMATE IS BASED ON EXPECTATIONS THAT ECONOMIC ACTIVITY, WHICH WAS LOSING STEAM BEFORE THE OIL CRISIS DEVELOPED, WOULD HAVE RESULTED IN REAL GROWTH OF 1 TO 2 PER CENT, WHILE A SHORTFALL OF OIL DELIVERIES WOULD TAKE ABOUT ONE PERCENTAGE POINT FROM THE REAL GROWTH RATE. ECONOMIC INDICATORS DO NOT ACTUALLY SHOW A DECELERATION OF GROWTH SUFFICIENT TO JUSTIFY THE ZERO GROWTH HYPOTHESIS. UNEMPLOYMENT FIGURES JUMPED UPWARD IN NOVEMBER AND DECEMBER (THE UNEMPLOYMENT RATE WAS 2.2 PER CENT IN DECEMBER), BUT MUCH OF THE INCREASE COULD BE ATTRIBUTED TO LAYOFFS IN INDUSTRIES NOT DIRECTLY AFFECTED BY OIL SHORTAGES AND WHICH WERE SHOWING SIGNS OF WEAKNESS LONG BEFORE OCTOBER: CONSTRUCTION, TEXTILES, LEATHER AND CLOTHING. ONLY THE AUTOMOBILE INDUSTRY CAN SHOW THAT INCOMING ORDERS SEEM TO BE SLOWING AS A DIRECT RESULT OF THE OIL CRISIS, AND EVEN HERE DOMESTIC ORDERS HAD BEEN WEAKENING SINCE SPRING. INCREASED OIL PRICES ARE EXPECTED TO ADD AT LEAST 2.5 PERCENTAGE POINTS TO THE RATE OF INCREASE OF CONSUMER PRICES. UNIT LABOR COSTS ARE ALSO INCREASING AT AN ACCELERATING RATE. IF DEMAND PRESSURE ALSO SUBSIDES AT A SLOWER-THAN-EXPECTED RATE, CONSUMER PRICES THIS YEAR COULD BE 8 TO 10 PER CENT HIGHER THAN LAST YEAR. IN FACT THE BUNDESBANK CURRENTLY FORECASTS A RATE OF BETWEEN 8 AND 11 PER CENT.

10. THE EFFECTS OF THE ENERGY CRISIS ON THE INTERNAL POLITICAL SITUATION ARE VERY MUCH A FUNCTION OF THE EFFECTS ON THE ECONOMY. TO THE EXTENT THAT THERE IS NO MASSIVE ECONOMIC DISLOCATION AS A RESULT OF THE CRISIS, THE DOMESTIC POLITICAL EFFECT SHOULD BE MINIMAL. IF, HOWEVER, THE CRISIS LEADS TO UNEMPLOY-MENT, SEVERE INFLATION, AND COMMODITY SHORTAGES, IT COULD PRODUCE STRAINS THAT COULD SERIOUSLY DESTABILIZE GERMAN SOCIETY.

11. A MAJOR FOCUS OF GERMAN FOREIGN POLICY IN THE

FORESEEABLE FUTURE WILL BE ON SOURCES OF ENERGY, PRIMARILY THE ARABS AND IRAN. RELATIONS WITH THE EAST EUROPEANS AND THE USSR WILL ALSO BE REVIEWED WITH RESPECT TO ENERGY, ALTHOUGH THE POSSIBILITIES FOR ANY SIGNIFICANT COOPERATIVE VENTURES IN THAT AREA REMAIN LIMITED. THE ENERGY CRISIS HAS BECOME A MAJOR ISSUE IN THE FRG'S RELATIONS WITH ITS EUROPEAN COMMUNITY PARTNERS. FOR THE FRG, THE DEVELOPMENT OF COMMON APPROACHES TO DEAL WITH THE ENERGY CRISIS HAS BECOME A MAJOR ELEMENT IN BOTH PUBLIC AND GOVERNMENTAL PERCEPTION OF THE EC'S ECONOMIC AND POLITICAL COHESION AND IT WILL IN PART DETERMINE THE DEGREE OF THE FRG'S SUPPORT OF OTHER EC ECONOMIC POLICY QUESTIONS.

12. THE COMBINATION OF THESE FACTORS HAS HAD A MARKED IMPACT ON THE FRAME OF MIND OF GERMAN POLICY MAKERS WHICH COULD HAVE REPERCUSSIONS IN THE FRG'S RELATIONS WITH THE US AS WELL AS WITH OTHERS. THE GOVERNMENT FEELS INCREASINGLY PUT UPON BY DEMANDS SEEMINGLY FROM ALL SIDES THAT IT PAY FOR PROJECTS PUT FORWARD BY OTHER COUNTRIES, E.G., THE EC REGIONAL FUND. ITS ATTITUDE HAS STIFFENED GENERALLY, AS HAS ITS READINESS TO DEFEND ITS OWN NATIONAL INTERESTS MORE AGGRESSIVELY. IN AN EC CONTEXT, GERMANY IS SHOWING ITS MUSCLE IN A NEW WAY AND SEEMS DETERMINED TO REQUIRE REAL MOVES TOWARD INTEGRATION FROM ITS PARTNERS BEFORE TAKING ON A LARGER QUOTE PAYMASTER UNQUOTE ROLE. THIS RETRENCHMENT HAS ALREADY BEEN SEEN IN THE OFFSET NEGOTIATIONS, AS WELL AS IN A DAMPENING OF FRG ENTHUSIASM FOR PROVIDING SUBSIDIZED CREDITS TO THE EAST. IT APPEARS THAT THE ENERGY CRISIS HAS INFLUENCED THE FRG'S POSTURE WITH REGARD TO THE ISRAELI-ARAB CONFRONTATION IN THAT THE GOVERNMENT, WHILE TOUTING ITS QUOTE SPECIAL RELATIONSHIP UNQUOTE TO ISRAEL HAS PURSUED A POLICY OF QUOTE EVENHANDEDNESS UNQUOTE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01017 04 OF 06 211628Z

45
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 DRC-01 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

OIC-04 IO-14 SCI-06 FEA-02 INT-08 COME-00 OMB-01

TRSE-00 NEA-11 AID-20 FRB-02 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 /207 W

--------------------- 036884

O R 211549Z JAN 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 9837
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY THE HAGUE
AMEMBASSY COPENHAGEN
AMEMBASSY BRUSSELS
AMEMBASSY LUXEMBOURG
AMEMBASSY DUBLIN
AMEMBASSY ROME
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 04 OF 06 BONN 01017

WITH AN INDICATION, HOWEVER, OF TILTING TOWARD THE ARAB SIDE.

2. EXISTING EFFORTS TO DEAL WITH THE CRISIS

13. ON NOVEMBER 9 THE GERMAN PARLIAMENT PASSED EMERGENCY LEGISLATION AUTHORIZING THE GOVERNMENT TO TAKE ENERGY CONSERVATION MEASURES INCLUDING
CONFIDENTIAL

GASOLINE RATIONING IF NECESSARY. IN IMPLEMENTATION OF THIS LAW, THE GOVERNMENT DECREED A SUNDAY DRIVING BAN FOR FOUR SUNDAYS IN NOVEMBER AND DECEMBER AND INTRODUCE SPEED LIMITS OF 100 KMS/HR ON THE AUTOBAHNS AND 80 KMS/HR ON OTHER ROADS. THE GOVERNMENT ALSO IMPOSED EXPORT LICENSING REQUIREMENTS ON BOTH CRUDE PETROLEUM AND PETROLEUM PRODUCTS. THE GOVERNM ENT DID NOT USE ITS AUTHORITY TO IMPLEMENT GASOLINE RATIONING OR A FUEL ALLOCATION PROGRAM, HOWEVER, RELYING INSTEAD ON JAWBONING AND MORAL SUASION. THE PUBLIC WAS URGED TO TURN DOWN THE THERMOSTATS IN HOMES AND OFFICES AND OIL PRODUCERS WERE URGED TO MAINTAIN A HIGH LEVEL OF

PRODUCTION OF DIESEL FUEL AT THE EXPENSE OF LIGHT HEATING OIL. THE GOVERNMENT HAS ALSO ENCOURAGED THE RECONVERSION OF OIL BURNERS TO COAL -- A PROCESS WHICH HAS ALREADY LED TO 350,000 TONS PER MONTH REDUCTION IN OIL CONSUMPTION.

14. THE GOVERNMENT HAS FURTHER TAKEN STEPS DESIGNED TO IMPROVE ITS CAPABILITY TO ENSURE CONTINUED GERMAN ACCESS TO PETROLEUM AND NATURAL GAS SUPPLIES. ONE SUCH STEP WAS THE PURCHASE OF CONTROLLING INTEREST IN THE GERMAN OIL FIRM GELSENBERG. THE GOVERNM ENT HOPES THAT A MERGER (EITHER DE FACTO OR DE JURE) OF GELSENBERG WITH THE GOVERNMENT-CONTROLLED VEBA WILL PROVIDE IT WITH A COUNTERWEIGHT TO THE DOMINANCE OF THE MAJORS IN SERVING THE GERMAN MARKET. ANOTHER STEP IS THE NEGOTIATIONS BETWEEN THE FRG, IRAN, AND THE USSR FOR THE IMPORTATION OF NATURAL GAS.

15. ON THE EMPLOYMENT SIDE, THE GOVERNMENT ACTED EARLY IN DECEMBER TO BAN ENTRY OF NON-EEC FOREIGN WORKERS INTO GERMANY AND TO SUPPORT FINANCING OF 50,000 LOW COST DWELLING UNITS. IT ALSO ANNOUNCED THAT A PREVIOUS INCREASE IN TEXTILE QUOTAS WOULD BE RESCINDED AS OF JANUARY 1, 1974. ON THE MACRO-ECONOMIC SIDE, THE GOVERNMENT ACTED LATER TO REMOVE MOST OF THE ANTI-INFLATIONARY PROGRAM WHICH WENT INTO EFFECT JULY 1 LAST YEAR. THIS ACTION INCLUDED REMOVAL OF THE 11 PER CENT INVESTMENT TAX, REINSTATEMENT OF ACCELERATED DEPRECIATION FOR INVESTMENT GOODS AND REINSTATEMENT OF

SPECIAL DEPRECIATION FOR ONE AND TWO-FAMILY DWELLINGS. AT THE SAME TIME, THE GOVERNMENT MADE IT CLEAR THAT IT WILL TAKE A MUCH MORE LENIENT ATTITUDE TOWARD SPENDING IN THE PUBLIC SECTOR. THE COMBINATION OF DECELERATING GROWTH IN PUBLIC REVENUE (AS THE ECONOMY SLOWS) AND A MORE RAPID GROWTH OF SPENDING SHOULD MEAN A RISING DEFICIT AND A SIZABLE ECONOMIC STIMULUS. REMOVAL OF THE INVESTMENT TAX ALONE WILL FREE DM 7 BILLION FOR USE BY FIRMS. ON THE STRUCTURAL SIDE, THE GOVERNMENT PLANS TO HELP INJURED INDUSTRIES WITH LOANS FROM THE RECONSTRUCTION LOAN CORPORATION. EVEN THOUGH THE GOVERNMENT HAS NOT RELEASED THE COUNTER-CYCLICAL FUNDS ON DEPOSIT WITH THE BUNDESBANK, AND HAS ALLOWED THE 10 PER CENT SURCHARGE ON CORPORATE AND UPPER LEVEL INDIVIDUAL INCOME TAXES TO REMAIN IN EFFECT, THE NET EFFECT OF THEIR ACTIONS IS TO STIMULATE DEMAND AND WILL ADD TO DEMAND PRESSURE THUS MAKING IT MORE LIKELY THAT THE FORECASTS OF A 1O PERCENT INCREASE IN CONSUMER PRICES WILL BE ACCURATE (OR

EVEN LOW).

3. EFFORTS PRESENTLY CONTEMPLATED

16. THE FRG IS PRESENTLY CONTEMPLATING A NUMBER OF MEASURES TO DEAL WITH THE ENERGY CRISIS. IT PLANS TO EXPAND THE OPERATIONS OF DEMINEX FOR CRUDE OIL EXPLORATION BOTH WITHIN AND OUTSIDE GERMANY. IT WILL OBLIGATE MORE FUNDS FOR INTERNAL DEEP DRILLING FOR NATURAL GAS. IT PLANS TO REDUCE THE SHARE OF OIL IN THE FRG ENERGY SUPPLY IN THE LONG RUN AND WILL INVESTIGATE SHORT TERM SUBSTITUTION POSSIBILITIES. IT WILL RECONSIDER THE ROLE OF COAL IN GERMAN ENERGY SUPPLIES, INCREASE THE USE OF GERMAN COAL FOR POWER

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01017 05 OF 06 211627Z

44
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 DRC-01 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

OIC-04 IO-14 SCI-06 FEA-02 INT-08 COME-00 OMB-01

TRSE-00 NEA-11 AID-20 FRB-02 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 /207 W
--------------------- 036878

O R 211549Z JAN 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 9838
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY THE HAGUE
AMEMBASSY COPENHAGEN

AMEMBASSY BRUSSELS
AMEMBASSY *UXEMBOURG
AMEMBASSY DUBLIN
AMEMBASSY ROME
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 05 OF 06 BONN 01017

GENERATION AND INVESTIGATE THE POSSIBILITY OF THE SUBSTITUTION OF OIL BY IMPORTED COAL TO THE EXTENT THAT IT DOES NOT DAMAGE THE POSITION OF GERMAN COAL. IT WILL ACCELERATE THE APPROVAL PROCEDURES FOR ATOMIC POWER PLANTS. IT WILL INTENSIFY AND ACCELERATE ENERGY CONSERVATION, RESEARCH AND DEVELOPMENT MEASURES. IN THIS REGARD IT HAS RECENTLY APPROVED
CONFID*NTIAL
CONFIDENTIAL

PAGE 02 BONN 01017 05 OF 06 211627Z

A DM1.5 BILLION RESEARCH AND DEVELOPMENT PROGRAM INCLUDING COAL GASIFICATION AND LIQUEFACTION (DM616 MILLION), MINING TECHNOLOGY (DM33O MILLION), TECHNOLOGY FOR DISCOVERY, AND DEVELOPMENT OF PETROLEUM DEPOSITS (DM174 MILLION), ENERGY CONVERSION, TRANSPORT AND STORAGE (DM27O MILLION) AND CONSERVATION AND IMPROVED UTILIZATION OF ENERGY (DM56 MILLION). THE FRG PLANS NO NEW MACROECONOMIC MEASURES AT THIS TIME.

17. THE FRG INTENDS TO EXPAND ITS COOPERATION WITH CONSUMER COUNTRIES BOTH WITHIN AND OUTSIDE THE EC. IT ALSO PLANS INCREASED COOPERATION WITH PRODUCERS INCLUDING FURTHER NEGOTIATIONS WITH IRAN, A VISIT BY ECONOMICS MINISTRY STATE SECRETARY ROHWEDDER TO SEVERAL ARAB STATES, NATURAL GAS DELIVERIES FROM NORWAY AND ALGERIA AND FURTHER DISCUSSIONS WITH THE SOVIET UNION.

D. ENERGY FACT SHEET

TABLE 1
FRG ENERGY CONSUMPTION IN 1972 BY ENERGY SOURCE

	(1)UNITS	OF TOTAL OF ENERGY CONSUMPTION	PERCENTAGE
CRUDE OIL AND PROD.	196.4	55.4	94.8
HARD COAL	93.7	23.6	7.6
NATURAL GAS	3O.6	8.6	42.2

BROWN COAL	31.O	8.7	5.1
NUCLEAR ENERGY	3.1	O.9	-
OTHERS	9.8	2.8	6O.1
TOTAL	354.4	1OO.O	55.5

(1)MILLION TONS OF HARD COAL UNITS

TABLE 2
FRG IMPORTS OF CRUDE OIL IN 1972 BY COUNTRY OF ORIGIN

	1,000 MT	PERCENT
LIBYA	28,48L.9	27.8

CONFIDENTIAL
CONFIDENTIAL

SAUDI ARABIA	18,997.5	18.5
ALGERIA	11,429.6	11.1
NIGERIA	1O,889.6	1O.6
IRAN	9,8O8.4	9.6
ARAB EMIRATES	6,393.9	6.2
KUWAIT	4,344.3	4.2
VENEZUELA	3,726.6	3.6
SOVIET UNION	2,845.2	2.8
OTHERS	5,683.1	5.6
TOTAL	1O2,6OO?1	1OO.O

TABLE 3
FRG IMPORTS OF REFINED PETROLEUM PRODUCTS IN 1972
BY COUNTRY OF ORIGIN

	1,OOO MT	PERCENT
NETHERLANDS	18,797	49.7
OTHER EC	8,886	23.5
GREAT BRITAIN	1,877	5.O
SOVIET UNION	3,O56	8.1
UNITED STATES	1,746	4.6
OTHERS	3,486	9.1
TOTAL	37,848	1OO.O

CONFIDENTIAL

NNN

CONFIDENTIAL

46
ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 DRC-01 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

OIC-04 IO-14 SCI-06 FEA-02 INT-08 COME-00 OMB-01

TRSE-00 NEA-11 AID-20 FRB-02 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 /207 W
--------------------- 036933
O R 211549Z JAN 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 9839
INFO AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY THE HAGUE
AMEMBASSY COPENHAGEN
AMEMBASSY BRUSSELS
AMEMBASSY LUXEMBOURG
AMEMBASSY DUBLIN
AMEMBASSY ROME
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 06 OF 06 BONN 01017

TABLE 4
FRG IMPORTS OF HARD COAL IN 1972 BY COUNTRY OF ORIGIN

	1,OOO MT	PERCENT
UNITED STATES	2,143.1	3O.9
POLAND	1,555.1	22.5

GREAT BRITAIN	1,O82.4	15.6
OTHER EC	1,464.3	21.1
OTHERS	684.7	9.9
TOTAL	6,929.6	1OO.O

TABLE 5
FRG IMPORTS OF NATURAL GAS IN 1972 BY COUNTRY OF ORIGIN

	1,000 CUBIC METERS
NETHERLANDS	14,177,397

TABLE 6

FRG IMPORTS OF BROWN COAL IN 1972 BY COUNTRY OF ORIGIN

	1,OOO MT
CZECHOSLOVAKIA	1,188.8
OTHER	5.2
TOTAL	1,194.4

BALANCE OF PAYMENTS

18. IT IS CURRENTLY ESTIMATED HERE THAT THE HIGH OIL PRICES WILL ADD ALMOST DM15 BILLION (SOME ESTIMATES ARE AS LOW AS DM12 BILLION ANO SOME AS HIGH AS DM18 BILLION TO THE FRG'S IMPORT BILL IN 1974. HOWEVER, SOME OF THE INCREASED PETROLEUM COSTS ARE EXPECTED TO BE PASSED ON IN THE FORM OF HIGHER EXPORT PRICES. IN ADDITION, THE OIL PRODUCING COUNTRIES ARE EXPECTED TO USE SOME OF THEIR INCREASED REVENUES, FOR ADDITIONAL IMPORTS. MOST OFFICIALS FORESEE AN FRG TRADE SURPLUS (IMPORTS: CIF; EXPORTS: FOB) OF BETWEEN DM2O-25 BILLION IN 1974 AS COMPARED WITH AN ESTIMATED SURPLUS OF DM33-34 BILLION IN 1973.

19. REMITTANCES OF FOREIGN WORKERS ARE EXPECTED TO DECLINE AND THE DEFICIT ON THE TOURISM ACCOUNT IS ESTIMATED TO BE ABOUT THE SAME AS IN 1973. PAYMENTS TO THE EEC COULD INCREASE AND THE EXACT AMOUNT WILL HINGE SOMEWHAT ON UPCOMING POLITICAL DECISIONS (E.G. REGIONAL FUND).

CONFIDENTIAL

2O. MOST OFFICIALS EXPECT THE 1974 CURRENT ACCOUNT BALANCE TO BE ROUGHLY IN EQUILIBRIUM (AS OPPOSED TO THE EXTENDED 1973 CURRENT ACCOUNT SURPLUS OF DM11 BILLION). THE OECD ESTIMATE OF A 2.5 BILLION DOLLAR FRG CURRENT ACCOUNT DEFICIT FOR 1974 IS CONSIDERED TOTALLY UNREALISTIC.

HILLENBRAND

CONFIDENTIAL

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, SUPPLIES, IMPORTS, LESS DEVELOPED COUNTRIES, ECONOMIC DEVELOPMENT, UNEMPLOYMENT, NATURAL GAS, NATURAL RESOURCES, PETROLEUM PRODUCTS, PRI CE TRENDS, NEGOTIATIONS, FOREIGN MINISTERS MEETINGS, PETROLEUM REFINING
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BONN01017
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740129/aaaabaoh.tel
Line Count: 810
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 15
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: STATE O1241O
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 27 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 MAR 2002 by worrelsw>; APPROVED <29 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: PREPARATIONS FOR INTERNATIONAL ENERGY CONFERENCE
TAGS: ENRG, GE, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005